

**STATE BOARD OF EXAMINERS OF PLUMBING,
HEATING, AND FIRE SPRINKLER CONTRACTORS**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**

Board Members

BOARD MEMBERS (2016)

Thomas G. Proffit, Chairman

Jeffrey R. Dunn, Vice Chairman

John N. Royal, Secretary/Treasurer

William H. Eubanks

William H. Sullivan, III

Robert J. Owens

D. Hunter Edwards, Jr.

EXECUTIVE DIRECTOR

Dale L. Dawson

LEGAL COUNSEL

John N. Fountain

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**

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**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2016

Introduction

The following is a discussion and analysis of the State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors' (the "Board") financial statements for the year ended December 31, 2016. The accompanying financial statements and footnotes comprise our complete set of financial information. The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and the previous two years are presented in the analysis.

Financial Highlights

During 2016, the operating revenues of the Board decreased by \$29,202, or 1.5%, an insignificant amount of the total budget of \$1,990,000.

During 2016, the non-operating revenues of the Board decreased by \$1,927, or 14.9%. This decrease was due to lower interest earnings on the Board's account balances. The Board is currently in the process of changing banking institutions.

During 2016, the operating expenses of the Board increased by \$58,150 or 3.1%. This increase was primarily due to slight increases in a number of areas including salary and benefits, staff education, phones, hearings, travel, etc.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Board's basic financial statements, which are comprised of the following components: 1) Statements of Net Position, 2) Statements of Revenues, Expenses and Changes in Net Position, 3) Statements of Cash Flows, and 4) Notes to Financial Statements. These financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Basic Financial Statements

The basic financial statements of the Board report information about the Board using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the activities of the Board.

The Statements of Net Position present the current and noncurrent portions of assets and liabilities separately.

The Statements of Revenues, Expenses, and Changes in Net Position present information on how the Board's net position changed as a result of the year's operations.

The Statements of Cash Flows present information on how the Board's cash changed as a result of the year's activity.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2016

The following presents condensed financial information on the operations of the Board as of December 31, and its operating and non-operating revenues and expenses for the years then ended:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 3,074,095	\$ 2,908,282	\$ 2,736,642
Capital assets	1,473,577	1,523,107	1,575,953
Noncurrent assets	<u>133,655</u>	<u>101,490</u>	<u>74,410</u>
Total assets	<u>4,681,327</u>	<u>4,532,879</u>	<u>4,387,005</u>
Current liabilities	1,546,816	1,466,146	1,468,329
Noncurrent liabilities	<u>57,126</u>	<u>41,884</u>	<u>35,642</u>
Total liabilities	<u>1,603,942</u>	<u>1,508,030</u>	<u>1,503,971</u>
Investment in capital assets	1,473,577	1,523,107	1,575,953
Unrestricted	<u>1,603,808</u>	<u>1,501,742</u>	<u>1,307,081</u>
Total net position	<u>\$ 3,077,385</u>	<u>\$ 3,024,849</u>	<u>\$ 2,883,034</u>
Operating revenues	\$ 1,974,631	\$ 2,003,833	\$ 2,004,640
Operating expenses	<u>(1,933,097)</u>	<u>(1,874,947)</u>	<u>(1,924,290)</u>
Operating income	41,534	128,886	80,350
Non-operating revenues (expenses)	<u>11,002</u>	<u>12,929</u>	<u>(5,454)</u>
Changes in net position	<u>\$ 52,536</u>	<u>\$ 141,815</u>	<u>\$ 74,896</u>

Events Affecting Future Operations

Management is in the process of upgrades to the building and its systems to improve safety, security and operations. This includes the purchase and installation of an emergency power generator to maintain the lighting, HVAC, security/surveillance systems and technology infrastructure (servers, networks, etc.) in the event of a power outage resulting from weather-related or man-made events. The expected costs of upgrades is approximately \$46,000.

The Board implemented a Post-Employment Health Benefits Plan effective January 1, 2014, which resulted in an estimated annual required contribution of approximately \$11,000 for the years ending December 31, 2016 and 2015. At December 31, 2016, the actuarial accrued liability of approximately \$68,000 was well below the actuarial asset value of \$133,655. The Board made contributions to fund the plan of \$75,000 in 2014, and \$25,000 in both 2015 and 2016. The Board obtained a new actuarial study which will be effective January 1, 2017, and will consider the actuarial valuation when making future contributions.

Contacting the Board's Management

This financial report is designed to provide a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have any questions about this report or need additional information, contact: State Board of Examiners of Plumbing, Heating and Fire Sprinkler Contractors, 1109 Dresser Court, Raleigh, NC 27609.

Independent Auditor's Report

Members of the Board
State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors (the "Board"), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements, which collectively comprise the Board's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors as of December 31, 2016 and 2015, and its changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, these financial statements are presented only for the State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors and do not purport to and do not present fairly the financial position of the State of North Carolina as of December 31, 2016 and 2015, nor the changes in its financial position and its cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 1 – 2, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bernard Robinson & Company, L.L.P.

Raleigh, North Carolina
April 7, 2017

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**

Statements of Net Position

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 3,058,523	\$ 2,900,500
Prepaid expenses	13,560	7,782
Other assets	2,012	-
Total current assets	<u>3,074,095</u>	<u>2,908,282</u>
Capital assets - net of depreciation:		
Land and building	1,348,729	1,374,125
Furniture and office equipment	23,397	23,681
Vehicles	101,451	125,301
Total capital assets - net of depreciation	<u>1,473,577</u>	<u>1,523,107</u>
Noncurrent assets:		
Investments - designated	<u>133,655</u>	<u>101,490</u>
Total assets	<u>4,681,327</u>	<u>4,532,879</u>
LIABILITIES:		
Current liabilities:		
Accounts payable	86,318	42,024
Compensated absences - current portion	16,000	13,200
Unearned revenue	1,444,498	1,410,922
Total current liabilities	<u>1,546,816</u>	<u>1,466,146</u>
Noncurrent liabilities:		
Compensated absences - long-term portion	24,000	19,800
Other postemployment benefits obligation	33,126	22,084
Total noncurrent liabilities	<u>57,126</u>	<u>41,884</u>
Total liabilities	<u>1,603,942</u>	<u>1,508,030</u>
NET POSITION:		
Investment in capital assets	1,473,577	1,523,107
Unrestricted	1,603,808	1,501,742
Total net position	<u>\$ 3,077,385</u>	<u>\$ 3,024,849</u>

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
License fees	\$ 1,779,417	\$ 1,810,670
Examination and application fees	126,450	126,195
Late processing fees	16,351	13,901
Other operating revenues	52,413	53,067
Total operating revenues	<u>1,974,631</u>	<u>2,003,833</u>
Operating expenses:		
Salaries and wages	749,078	720,683
Payroll taxes	54,413	54,151
Retirement contributions	60,333	59,388
Employee insurance	114,445	113,856
Other postemployment benefits contribution	11,042	11,042
Board members' expenses	51,164	52,155
Travel and lodging	67,427	62,652
Contracted temporary services	8,043	8,084
Telephone	16,338	11,691
Depreciation	64,032	70,941
Computer support	44,903	39,392
Building maintenance and utilities	22,377	30,834
Examination costs	86,255	82,275
Hearing expenses	31,982	21,072
Office and computer expenses	69,895	76,140
Printing	38,639	22,662
Postage and shipping	21,318	19,627
Insurance	40,593	42,248
Dues and publications	2,975	2,123
Legal, audit, and other professional fees	363,344	364,961
Continuing education expenses	14,501	8,970
Total operating expenses	<u>1,933,097</u>	<u>1,874,947</u>
Operating income	<u>41,534</u>	<u>128,886</u>
Non-operating revenues (expenses):		
Net investment income	7,268	13,092
Net realized and unrealized gain (loss) on investments	3,734	(163)
Total non-operating revenues	<u>11,002</u>	<u>12,929</u>
Changes in net position	52,536	141,815
Net position - beginning of year	<u>3,024,849</u>	<u>2,883,034</u>
Net position - end of year	<u>\$ 3,077,385</u>	<u>\$ 3,024,849</u>

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from fees	\$ 1,955,794	\$ 1,954,016
Cash received from other operating revenues	52,413	53,067
Cash payments to employees for services	(973,281)	(956,078)
Cash payments to suppliers of goods and services	(673,189)	(698,824)
Cash payments for other operating expenses	(168,049)	(146,972)
Net cash provided by operating activities	<u>193,688</u>	<u>205,209</u>
Cash flows from investing activities:		
Purchase of investments	(28,335)	(25,000)
Sale of investments	3,335	-
Net investment income	7,268	13,092
Investment income reinvested	(3,431)	(2,243)
Net cash used in investing activities	<u>(21,163)</u>	<u>(14,151)</u>
Cash flows from capital and financing activities:		
Acquisition of capital assets	(14,502)	(18,095)
Net cash used in capital and financing activities	<u>(14,502)</u>	<u>(18,095)</u>
Net increase in cash and cash equivalents	158,023	172,963
Cash and cash equivalents - beginning of year	<u>2,900,500</u>	<u>2,727,537</u>
Cash and cash equivalents - end of year	<u>\$ 3,058,523</u>	<u>\$ 2,900,500</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 41,534	\$ 128,886
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	64,032	70,941
Changes in assets and liabilities:		
Prepaid expenses	(5,778)	1,323
Other assets	(2,012)	-
Accounts payable	44,294	(2,233)
Unearned revenues	33,576	3,250
Compensated absences	7,000	(8,000)
Other postemployment benefits obligation	11,042	11,042
Total adjustments	<u>152,154</u>	<u>76,323</u>
Net cash provided by operating activities	<u>\$ 193,688</u>	<u>\$ 205,209</u>

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The State Board of Examiners of Plumbing, Heating, and Fire Sprinkler Contractors (the “Board”) is an independent State agency. It is an occupational licensing board and is authorized by Chapter 87 of the North Carolina General Statutes. The Board is composed of seven members who are appointed by the Governor.

The Board is established to protect the public health, safety and welfare of the citizens of North Carolina by maintaining minimum standards for services provided by plumbing, heating and fire sprinkler contractors.

The Board’s operations are financed with self-generated revenues from fees charged to examinees and licensees.

Financial Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The accompanying financial statements present all funds and activities for which the Board is responsible.

For financial reporting purposes, the Board is a nonmajor enterprise fund of the primary government of the State of North Carolina and may be reported as such in the State's Comprehensive Annual Financial Report (CAFR). These financial statements for the Board are separate and apart from those of the State of North Carolina and do not present the financial position of the State nor changes in the State's financial position and cash flows.

The accompanying financial statements present all funds and activities for which the Board is responsible.

Basis of Presentation

The accompanying basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (“GASB”).

Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The basic financial statements of the Board have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when a liability has been incurred, regardless of the timing of the cash flows.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

The Board classifies its revenues as operating or non-operating in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services that are necessary to the Board's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions and consist primarily of examination and license fees. Operating expenses are all expense transactions incurred other than those related to capital and non-capital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*.

Nonoperating revenues and expenses include activities that have characteristics of nonexchange transactions and consist primarily of investment activities.

Cash and Cash Equivalents

This classification includes cash on deposit and money market accounts with financial institutions. For purposes of the statements of cash flows, the Board considers all investments with an original maturity of three months or less when purchased as cash equivalents.

Investments

Investments consist of equities and mutual funds and are reported at fair value. Fair values are based on readily available market quotes. In 2015 the Board elected to early adopt GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. The Board capitalizes assets that have a cost of \$1,000 or greater at the date of acquisition and an expected useful life in excess of two years. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	7-40 years
Furniture, office equipment, and software	3-10 years
Vehicles	8 years

When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in non-operating revenue or expense for the period.

Unearned Revenue

The Board's fees are assessed and collected on a calendar year basis, which corresponds with the Board's accounting period. Licenses are renewed for a period of one calendar year. License renewal fees received in the latter part of the fiscal year and related to the subsequent year's renewal period are reported as unearned revenue and recognized as revenue over the one-year period to which they relate.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

Board employees may accumulate up to thirty days earned vacation which is fully vested when earned. The Board approved a new policy in 2013 whereby employees with a minimum of 100 banked hours, who have taken a minimum of 40 hours of vacation during the previous twelve calendar months prior to December 1 of each year, may participate in the Board's vacation leave buyback program. The employee can sell back a maximum of 80 hours of vacation time annually, but may not fall below 80 hours of accrued vacation time banked. The Board paid \$10,569 and \$10,318 to employees under the vacation buy-back program for the years ended December 31, 2016 and 2015, respectively.

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave credits at the rate of 8 hours per month for full-time permanent employees. During 2013, the Board approved a new policy whereby employees with a minimum of 700 hours of accumulated sick leave may participate in the Board's sick leave buy-back program. The employee can sell back a maximum of 80 hours of sick time during a calendar year, but must maintain a minimum of 620 hours in sick leave. The Board paid \$9,426 and \$6,452 to employees under the sick leave buy-back program for the years ended December 31, 2016 and 2015, respectively. Since the Board had no obligation for accumulated sick leave at December 31, 2016, no accrual for sick leave has been made.

Employees who are eligible and elect to participate in the vacation and sick leave buyback programs must notify the Board no later than November 15 of each year with the payment made to the employee on December 15.

Net Position

The Board's net position is classified as follows:

Investment in Capital Assets - This represents the Board's total investment in capital assets net of accumulated depreciation.

Unrestricted - This represents assets with no externally imposed stipulations as to use or purpose. Unrestricted net assets can be employed for any purpose designated by the governing board, as distinguished from funds restricted externally for specific purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 2 - DEPOSITS

The Board's deposits include cash on deposit with financial institutions.

Custodial credit risk is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. The Board's deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposits exceeding FDIC limits are collateralized daily by Public Funds owned by the Banks.

NOTE 3 - INVESTMENTS

During 2014, the Board created a designated fund to be used for funding the post-employment benefits, described in Note 8, to be segregated from other funds of the Board and not to be used for any other purpose. The Board's investment policy stipulates the funds may be invested by the Board in any type investment used by the State Retirement System for investment of its retirement funds, but excluding derivatives, hedge funds, options, real estate or the equivalent. The funds are monitored by the Board's Chairman to ensure dividends are being earned and, if necessary, the Board has the option to change the investment mix upon Board approval. An initial amount of \$75,000 was invested in the fund in 2014 with \$25,000 added to the fund annually beginning in 2015.

There are no legal limitations on the types of investments by the Board. The Board has adopted formal investment policies to establish investment objectives, standards of prudence, eligible investments, and safekeeping and custodial procedures necessary for the prudent management of the private funds maintained by the Board.

The Board is subject to the following risks:

Interest Rate Risk: Interest rate risk is the risk the Board may face should interest rate variances affect the fair value of investments.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board manages credit risk by diversifying its investment portfolio. Investments are limited to:

- Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.
- Obligations of the State of North Carolina.
- Time deposits of financial institutions with a physical presence in North Carolina. Time deposit accounts insured by the FDIC are favored over those insured by other entities.

The bank deposits included in the investments below are insured by the FDIC up to \$250,000. The equities and mutual funds are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. The SIPC is a nonprofit member corporation funded by its member securities broker-dealers. The SPIC insures against the loss or theft of securities as well as the failure or insolvency of the brokerage firm.

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 3 - INVESTMENTS (Continued)

The following table presents the cost and fair value of investments by type and investments subject to interest rate risk and credit risk at December 31, 2016 and 2015:

December 31, 2016	Cost	Fair Value	Unrealized Gain (Loss)
Bank deposits	\$ 25,005	\$ 25,005	\$ -
Equities	99,787	104,822	5,035
Mutual funds	4,727	3,828	(899)
Total investments	\$ 129,519	\$ 133,655	\$ 4,136

December 31, 2015	Cost	Fair Value	Unrealized Loss
Bank deposits	\$ 34,254	\$ 34,254	\$ -
Equities	62,819	62,066	(753)
Mutual funds	5,170	5,170	-
Total investments	\$ 102,243	\$ 101,490	\$ (753)

Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Board utilizes market data or assumptions that market participants would use in pricing the asset or liability.

A three-tier fair value hierarchy is used to prioritize the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Board's assets at fair value as of December 31, 2016 and 2015:

December 31, 2016	Level 1	Level 2	Level 3	Total
Bank deposits	\$ 25,005	\$ -	\$ -	\$ 25,005
Equities	104,822	-	-	104,822
Mutual funds	3,828	-	-	3,828
Total investments	\$ 133,655	\$ -	\$ -	\$ 133,655

December 31, 2015	Level 1	Level 2	Level 3	Total
Bank deposits	\$ 34,254	\$ -	\$ -	\$ 34,254
Equities	62,066	-	-	62,066
Mutual funds	5,170	-	-	5,170
Total investments	\$ 101,490	\$ -	\$ -	\$ 101,490

**STATE BOARD OF EXAMINERS OF PLUMBING, HEATING, AND
FIRE SPRINKLER CONTRACTORS**
Notes to Financial Statements

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the years ended December 31, 2016 and 2015 are as follows:

	Cost			Net		
	12/31/2015	Additions	Retirements	12/31/2016	Accum. Depreciation	Amount
Land	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000
Building	1,184,910	1,463	-	1,186,373	337,644	848,729
Furniture/ equipment	406,457	13,039	-	419,496	396,099	23,397
Vehicles	190,800	-	-	190,800	89,349	101,451
	<u>\$2,282,167</u>	<u>\$ 14,502</u>	<u>\$ -</u>	<u>\$2,296,669</u>	<u>\$ 823,092</u>	<u>\$1,473,577</u>

	Cost			Net		
	12/31/2014	Additions	Retirements	12/31/2015	Accum. Depreciation	Amount
Land	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000
Building	1,184,910	-	-	1,184,910	310,785	874,125
Furniture/ equipment	388,362	18,095	-	406,457	382,776	23,681
Vehicles	190,800	-	-	190,800	65,499	125,301
	<u>\$2,264,072</u>	<u>\$ 18,095</u>	<u>\$ -</u>	<u>\$2,282,167</u>	<u>\$ 759,060</u>	<u>\$1,523,107</u>

NOTE 5 - COMPENSATED ABSENCES

Changes to accrued vacation are as follows:

	2016	2015
Beginning accrued compensated absences	\$ 33,000	\$ 41,000
Vacation earned	46,714	36,637
Vacation used	(39,714)	(44,637)
Ending accrued compensated absences	<u>\$ 40,000</u>	<u>\$ 33,000</u>

NOTE 6 - OPERATING LEASE

The Board leases a postage machine under an operating lease which expires in June of 2017. Total rent expense charged to operations under the lease agreement was approximately \$3,700 and \$3,100 in 2016 and 2015, respectively. The following is a schedule of future minimum lease payments required under the lease:

<u>Year Ending December 31:</u>	
2017	<u>\$ 1,566</u>

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NOTE 7 - RETIREMENT PLAN

In 1997, the Board established a salary reduction, defined contribution retirement savings plan in accordance with Internal Revenue Code Section 401(k). Participating employees must contribute at least 6% of their compensation each year, up to IRS deferral limitations. Additionally, the Board makes discretionary contributions to the plan which amounted to 8.15% of employee compensation in 2016 and 2015. During 2016, voluntary contributions by employees were \$68,157 and the Board's contribution was \$60,333. During 2015, voluntary contributions by employees were \$69,990 and the Board's contribution was \$59,388. The employee's contributions are 100% vested immediately, and the Board's matching contributions are 100% vested after 5 years of credited service.

NOTE 8 - POST-EMPLOYMENT BENEFITS

Effective January 1, 2014, the Board established the *State Board of Examiners of Plumbing, Heating & Fire Sprinkler Contractors Retiree Health Care Arrangement* (the "Plan"), which is considered an other post-employment benefit plan ("OPEB") and is accounted for under the provisions of Governmental Accounting Standards Board Statement 45 ("GASB 45") *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The plan is a self-administered, single-employer plan. Significant terms of the Plan are as follows:

Employees retiring on or after age 60 and having completed 20 but less than 25 years of Board service shall be eligible to receive a defined contribution from the Board of \$150 per month for health care costs. Employees retiring on or after age 60 and having completed 25 but less than 30 years of Board service shall be eligible to receive a defined contribution from the Board of \$250 per month for health care costs. Employees retiring after completion of 30 years of Board service at any age shall be eligible to receive a defined contribution from the Board of \$400 per month for health care costs. Every five years the Board's Executive Committee will perform a market comparison and, at the discretion of the Board's Executive Committee, may increase the amount of the defined distribution to mimic the increase in the economic environment of the previous five year period, but in no case may the Board decrease the defined contribution.

The Board obtained an actuarial valuation of the Plan, resulting in an actuarial accrued liability (AAL) of \$68,309 at December 31, 2016, representing 10.1% of covered payroll, and an annual required contribution (ARC) beginning in 2014 of \$11,042. The ARC consists of normal cost plus assumed interest, and amortization of the AAL which is calculated assuming a 30-year open level annual amortization schedule. Covered payroll consists of twelve active employees. Based on the average age of the active employees, expected benefit payments will begin in the year ending December 31, 2028. A discount rate of 4.5% was used for the valuation, which represents the estimated long-term investment yield on the investments that are expected to be used to finance the payment of benefits, with consideration given to the nature and mix of current and expected investments. The actuarial valuation reflects a long term perspective and involves estimates of the reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

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NOTE 8 - POST-EMPLOYMENT BENEFITS (Continued)

In addition to the post-employment health benefits, a retiring employee, at the time of 25 years of service, may chose to have the balance of their sick time distributed at the rate of \$.30 for each \$1 of value in time accrued. The rate of pay for each hour is the average of the hourly rate of the retiring employees' pay during the last five years of employment.

The Board designated funds which are held in a brokerage account to be used solely for the funding of the post employment benefits. These designated investments are described in Note 3.

NOTE 9 - COMMITMENTS

In October 2016, the Board entered into a contract for the purchase and installation of a natural gas generator for \$45,610. The Board expects the installation of the generator to be completed in the first quarter of 2017.

NOTE 10- RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Tort claims of Board members up to \$1,000,000 are self-insured by the State under the authority of the State Tort Claims Act. Additional coverage is provided to the Board under the State's Public Officers' and Employees' Liability Insurance contract with a private insurance company. The Board also protects itself from exposures to loss through the purchase of commercial insurance, of which coverage includes Board members, building and contents, commercial liability, workers compensation and employers' liability, and vehicle.

NOTE 11 - CONTINGENCIES

The Board is involved in a number of disciplinary hearings throughout the year which arise in the ordinary course of its operations. In the opinion of management of the Board, the results of such actions during the year under audit do not materially affect the Board's operations, changes in financial position, or cash flows for the year herein ended.

NOTE 12 - SUBSEQUENT EVENTS

Management of the Board evaluated subsequent events through April 7, 2017, which is the date the financial statements were available to be issued. They discovered no subsequent events that should be disclosed.

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NOTE 13 - ACCOUNTING STANDARD ISSUED BUT NOT YET EFFECTIVE

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which replaces GASB 45, and outlines reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. The Board has not yet determined the effects the adoption of this Statement will have on its financial statements.

The audit was conducted in approximately 85 hours at a cost of \$10,600.